



## **DRAFT TARIFF POLICY**

Notwithstanding the review date as shown, this policy shall remain effective until approved otherwise by Council and may be reviewed on an earlier date as deemed necessary.

## TABLE OF CONTENTS

1	PREAMBLE .....	3
2	OBJECTIVES .....	3
3	PRINCIPLES .....	3
4	DEFINITIONS .....	4
5	APPLICABLE LEGISLATION .....	5
6	POLICY PROVISIONS .....	5
7	IMPLEMENTATION AND MONITORING .....	11

## **1 PREAMBLE**

- 1.1 The tariff policy is compiled, adopted and implemented in terms of the current legislation.
- 1.2 This Policy guides the levying of fees for services provided by the municipality or by way of service delivery agreements. In setting the annual tariffs Municipality shall at all times take due consideration to tariffs applicable elsewhere in the sector and broadly in the economic region.
- 1.3 The latter consideration seeks to address the impact which policy tariffs may have on local economic development.
- 1.4 It is imperative for Municipality to acknowledge that the tariff policy must be driven by the following constitutional provisions: revenue adequacy and certainty; sustainability; effectiveness and efficiency; accountability, transparency and good governance - equity and redress as well as imperatives for development and investment.

## **2 OBJECTIVES**

The policy objectives are to ensure that:

- 2.1 The tariffs of the Municipality conform to acceptable policy principles;
- 2.2 Municipal services are financially sustainable;
- 2.3 There is certainty in the Municipality, of how the tariffs will be determined;
- 2.4 Tariffs of the Municipality comply with the applicable legislation

## **3 PRINCIPLES**

Municipality's tariff policy will reflect the following principles:

- 3.1 Consumers of municipal services should be treated equitably;
- 3.2 Amounts payable for services should generally be in proportion to usage;
- 3.3 Indigent must have access to free basic services in line with Municipal indigent policy.
- 3.4 Tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement costs and interest charges;
- 3.5 Notwithstanding capital sources from elsewhere, tariffs must be set at levels that facilitate the financial sustainability of the service.
- 3.6 Different tariff rates will be applicable to various categories of consumer's.

- 3.7 Recovery of costs on immeasurable services shall be equalised over the total area of jurisdiction of the municipality and the principle of flat rate payment will apply

## 4 DEFINITIONS

- 4.1 **“Municipal area”**: Means the area in respect of which the municipality has executive and legislative authority as determined by the constitution and the National legislation and the area as demarcated by the Demarcation Act (Act 27 1998);
- 4.2 **“Municipal Council”**: Means a municipal Council referred to in section 157 of the Constitution;
- 4.3 **“Poor households”**: Means those households in the municipal area that cannot afford to pay either the entire tariff charge for the municipal services, or part of it, also means those households in the municipal area living in property with a municipal property valuation under R15000 and earn less than R1560 per month.
- 4.4 **“Tariff Policy”**: Means a policy on the levying of fees, rates or taxes for the municipal services provided by the municipality itself and that complies with the Municipal Systems Act 2000 (Act 32 of 2000); The Act Means the Municipal Systems Act 2000, (Act 32 of 2000) (MSA).
- 4.5 **“Recovery Cost”**: Resource management expenditure refers to those activities that are required to regulate, manage and maintain the service.
- 4.6 **“Capital Costs (Depreciation)”**: Capital cost expenditure is the Council’s obligation to meet the repayments on loans negotiated to finance the provision of the service.
- 4.7 **“Maintenance Costs”**: These are normal running costs to maintain the service at the established level of service provision.
- 4.8 **“Consumption / Usage”**: In the case of measurable services, the actual cost of usage of the services is easily determined. Where measurable services are provided without measuring devices being installed, the cost will be calculated by using the sectoral charge multiplied by the bulk registered consumption or estimated volume of consumption divided by the number of households/properties.
- 4.9 **“Trading Service”**: Water and sewerage is a trading service. Typically the consumption of a trading service is measurable and can be apportioned to an individual consumer.
- 4.10 **“Economical Services”**: Sewage and domestic household removal are economic services.
- 4.11 **“Subsidised Services”**: These services include firefighting, approving building plans and the construction of buildings, leasing of municipal facilities, and certain town planning functions.

- 4.12 **“Community Services”**: Community Services are those services the consumption of which cannot be determined nor apportioned to individual consumers.
- 4.13 Level of services refers to Industries, Domestic and others.

## **5 APPLICABLE LEGISLATION**

- 5.1 In terms of Section 62 (1) of the Municipal Finance Management Act (MFMA) the Accounting Officer of a Municipality is responsible for managing the fiscal administration of the municipality and in terms of Section (1)(f), must for this purpose take all reasonable steps to ensure that the municipality has and implements a tariff policy referred to in Section 74 of the Municipal Systems Act (MSA).
- 5.2 In terms of S74 (3) of the MSA a tariff policy may differentiate different categories of users, debtors, service providers, services and geographical areas subject to ensuring no unfair discrimination.
- 5.3 For the purposes of this Policy, the Regional Services Councils Act No. 109 of 1098, the Municipal Finance Management Act No. 53 of 2003, the Water Services Act of 1997 and the Local Government Municipal Systems Amendment Act No. 44 of 2003 has been used as a reference.

## **6 POLICY PROVISIONS**

### Free Basic Services

- 6.1 Municipality recognizes that Indigent is entitled to a minimum amount of free basic services in line with provision of Indigent policy.
- 6.2 Basic services refers to:
- 6.2.1 Portable Water
  - 6.2.2 Domestic waste water
  - 6.2.3 Domestic refuse removal
  - 6.2.4 Municipal Health services
  - 6.2.5 Household Sanitation, Septic
  - 6.2.6 tank and V.I.P toilet
- 6.3 Affordable Tariffs - CDM undertakes to keep tariffs at affordable levels and will ensure that:
- 6.3.1 Services are delivered at an appropriate level;
  - 6.3.2 Efficiencies are built into all Municipal operations;
  - 6.3.3 A performance management system is introduced to ensure that plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used;

- 6.3.4 Any service that is provided for which there is little demand, that is priced under the actual cost of providing it and which requires the Municipality to maintain significant infrastructure and other facilities, are phased out, except where the Municipality is by law required to provide such as service.
- 6.3.5 To increase affordability for indigent persons, Municipality will ensure that its equitable share of revenue raised nationally, will be used to efficiently subsidise a certain level of basic services for them.

#### 6.4 Tariff Equality for Water Services

- 6.4.1 Municipality holds that all consumers must pay the same tariff for the same level and quality of service. However different categories of consumers can have different tariffs.
- 6.4.2 The Municipality, like any other enterprise is subject to continuous price increases in the goods, materials and other resources that it uses to perform its functions. Consequently it is the policy of CDM that:
  - 6.4.2.1 Tariffs for services will be reviewed at least once during every financial year;
  - 6.4.2.2 Tariff increases must be in line with increases in the price of goods, material and other resources acquired and used by the Municipality to perform its functions; and
  - 6.4.2.3 That tariffs for a particularly service must be calculated in such a way that all relevant costs are covered.

#### 6.5 Payment for Services Rendered

- 6.5.1 Notwithstanding the provision for a minimum amount of free basic services, consumers of services must pay for the amount of services that they use.
- 6.5.2 Where it is possible to measure the consumption of services, the municipality to install metering systems as in the case of water usage, and to take into account the free service element.
- 6.5.3 In this regard the municipality will develop and fast-track a programme of installing meters where such meters remain outstanding. In line with the latter, it is Council's policy that the tariff for such services must include all relevant cost factors as stated above.

#### 6.6 Local Economic Development and Competitiveness

- 6.6.1 The size of the service charge accounts presented to local businesses is a significant business overhead for any business enterprise in the municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival.
- 6.6.2 The municipality will therefore be sensitive that municipal accounts presented to local businesses are fair by amongst others, considering the desire:

- 6.6.2.1 To promote local economic competitiveness; and
- 6.6.2.2 To promote local economic development and growth.

## 6.7 Service Delivery Sustainability

- 6.7.1 The Municipality must ensure that the service that it provides must be sustainable. Financial sustainability of an enterprise will be achieved when it is financed in a manner that ensures that its financing is sufficient.
- 6.7.2 The tariff for a service must therefore be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision.
- 6.7.3 Sustainability does not only mean that the price of the services must include all relevant costs element, it also means that the charges to be levied must be collected.
- 6.7.4 The Council shall therefore adopt and apply a Credit Control and Debt Collection policy to ensure that service charges are recovered.

## 6.8 Tariff Determination

- 6.8.1 Tariffs represent charges levied by Council on consumers for the utilization of services provided by the Municipality. Tariffs shall be calculated in various different ways, dependent upon the nature of the service being provided.
- 6.8.2 Tariffs shall be set in such a manner so as to recover the full cost of the service being provided or recover a portion of those costs, or to bring about a surplus that can be utilized to subsidise other non-economical services.
- 6.8.3 In special circumstances, such as significant increases in the cost price of goods and services, the Council will review its tariffs during the preparation of the annual budget.
- 6.8.4 Proposed tariffs shall be presented to the community during the Council's consultations about the budget. Immediately after the Council has determined or amended a tariff, the Accounting Officer must clearly display it at all offices of the Municipality as well as at such other places within the municipal area as he/she may determine. The notice must state:
  - 6.8.4.1 The general purpose of the resolution;
  - 6.8.4.2 The date on which the determination or amendment comes into operation;
  - 6.8.4.3 The date on which the notice is displayed;
  - 6.8.4.4 That any person who desires to object to such determination or amendment must do so in writing within 21 days after the date on which the notice was displayed; and

- 6.8.4.5 That any person who cannot write may come during office hours to a place where a staff member of the Municipality named in the notice will assist that person to transcribe his objection.
- 6.8.5 If no objection is lodged within the period stated in the notice the determination or amendment will come into operation on the date determined by the municipality. Where an objection is lodged, the Municipality will consider every objection.
- 6.8.6 The municipality shall, after it has considered all objections, confirm, amend, or withdraw the determination or amendment and may determine another, on the date on which the determination or amendment will come into operation.
- 6.8.7 After the Council has considered the objections it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.

## 6.9 Revenue Sources

The Council shall finance the affairs of the Municipality by:

- 6.9.1 Charging fees for services; and
- 6.9.2 Imposing surcharges on fees, and to the extent authorised by national legislation, other taxes, levies and duties.
- 6.9.3 The Municipality shall establish appropriate mechanisms, procedures and processes to ensure community participation in, amongst other things, the preparation of its budget.
- 6.9.4 The following provisions shall be applicable:
  - 6.9.4.1 Interest shall be charged at a prime rate per annum/per month; must be paid to the Municipality on accounts that have not been paid within thirty days from the date on which such accounts became due.
  - 6.9.4.2 Interest shall not be applicable to persons with a qualifying indigent status (refer to Indigent Policy);
  - 6.9.4.3 Accounts outstanding for more than six months should incur a prime rate collection charge (Local Authorities Ordinance, Section 171);
  - 6.9.4.4 Any fine imposed or money treated as bail in respect of any offence under the ordinance or a bylaw made by the Council, must be paid to the Municipality.

## 6.10 Reconnection Fees

Reconnection fee shall be charged on all disconnected services.



## 6.11 Classification of Services, Categories & Levels of Consumers

Traditionally, municipal services have been classified as trading, rates & general services (economic, subsidised and community services) and housing services based on how they are financed. The categorization is as follows:

### 6.11.1 Trading Services

The tariffs for trading services are determined in such a way that a net trading surplus is realized. The trading surplus is used to subsidise the tariffs of non-trading services.

### 6.11.2 Economical Services

The consumption of an economic service can be measured or determined with reasonable accuracy and apportioned to an individual consumer. The tariffs shall be determined in such a way that the costs for providing a service are recovered.

### 6.11.3 Subsidised Services

A user charge is payable for using the service, but the tariff is much lower than the real cost of providing the service.

### 6.11.4 Tariff Charges

#### 6.11.4.1 Water

The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget. Tariff adjustments shall be effective from the start of the business not calendar year.

Categories of consumption and charges shall be:

- 6.11.4.1.1 All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kilolitres of water consumed per month. Thereafter a stepped tariff per kilolitre as determined by council from time to time shall be applicable on metered water consumption, as set out in this policy.
- 6.11.4.1.2 All other domestic consumers shall be charged for actual water consumption at a stepped tariff per kilolitre as determined by council from time to time, and as set out in this policy.
- 6.11.4.1.3 All other consumers, including businesses, industries and institutional consumers shall pay the same single tariff per kilolitre irrespective of the volume of water consumed.

6.11.4.1.4 A basic charge / connection fee, shall be charged on all water consumers, except registered indigents and consumers using prepaid meters.

6.11.4.1.5 The local municipality's water consumption shall be charged at applicable tariff rates.

#### 6.11.4.2 Sewerage

The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by council in each annual budget. Tariff adjustments will be effective from 1 July each year.

Categories of usage and charges shall be:

6.11.4.2.1 A basic (availability) charge per month shall be charged for an undeveloped erf, irrespective of their permitted or intended use in a proclaimed area.

6.11.4.2.2 Registered indigents may receive such discount on this charge as the council deems affordable and appropriate when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.

6.11.4.2.3 A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.

6.11.4.2.4 A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

6.11.4.2.5 An effluent fee shall further be payable by factories and other industrial users where the wastewater emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the wastewater concerned and the costs of the purification.

6.11.4.2.6 Final treated effluent fees shall be charged for other uses at tariff rates approved by council.

#### 6.11.4.3 Sundries

The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

6.11.4.3.1 building plan fees

6.11.4.3.2 photostat copies and fees

The following charges and tariffs shall be considered as regulatory or punitive and shall be determined as appropriate in each annual budget:

- 6.11.4.3.3 Advertising sign fees
  - 6.11.4.3.4 Reconnection fees to water only
  - 6.11.4.3.5 Other charges imposed in line with the credit and debt control policy
  - 6.11.4.3.6 Penalties related to dishonoured, stale, post-dated or otherwise unacceptable cheques
- 6.11.5 Units of measurement
- 6.11.5.1 Water
    - 6.11.5.1.1 Cost per unit (kilolitres consumed, (KI))
    - 6.11.5.1.2 Flat rate will be applicable when consumption cannot be measured
  - 6.11.5.2 Sewerage
    - 6.11.5.2.1 Basic charge will be applicable on both domestic and business consumers
    - 6.11.5.2.2 Basic charge – based on the area of the property and fixed costs associated with the service
    - 6.11.5.2.3 Additional charge – based on the area and variable costs of the service
    - 6.11.5.2.4 When the consumer is not available, a flat rate based on the average consumption per categories of consumers will be applicable

## **7 IMPLEMENTATION AND MONITORING**

- 7.1 The Chief Financial Officer is responsible for the implementation of this Policy
- 7.2 Breaching of this Policy may result in disciplinary action.